

## Message Text

SECRET

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ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 /031 W  
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P 031345Z JUL 74

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORORTY 7551

S E C R E T SECTION 1 OF 2 CAIRO 4852

EXDIS

E.O. 11652: GDS

TAGS: OVIP(SIMON, WILLIAM)

SUBJ: SECRETARY SIMON'S MIDDLE EAST TRIP

REF: STATE 142496

### SUMMARY

WE GENERALLY ENDORSE DRAFT STRATEGY PAPER FOR SECRETARY SIMON'S VISIT. IT IS A COMPREHENSIVE OVERVIEW OF EGYPTIAN POLITICAL/ECONOMIC SITUATION.; 5#3.3 9\* ;8 85 #97)\$, IN OUR VIEW, BE "HOW CAN USG HELP GOE TO HELP ITSELF PBZ GOE EXPECTS DEBT RESCHEDULING AND WILL WELCOME ACTIVE UFG ROLE THEREIN. SECRETARY MIGHT USE- FULLY RE-EMPHASIZ TO EGYPTIAN MINISTERS IMPORTANCE OF ATTRACTING PRIVATE FINANCIAL INVESTMENT AND PERHAPS OUTLINE FOR THEM HIS VIEWS ON WHAT IS NEEDED TO ATTRACT AMERICAN INVESTMENT.

MODALITIES OF REACTIVATING INVESTMENT GUARANTEE AGREEMENT AND OPIC PROGRAMS SHOULD BE REVIEWED. ADEQUACY OF NEW INVESTMENT LAW AND HEGAZI'S INTERPRETIVE MEMORANDUM SHOULD ALSO BE EXPLORED. IN DISCUSSION OF DIRET USG AIDV, BELIEVE IT WOULD BE TACTICALLY DESIRABLE FOCUS ON GENERAL SECTORS IN WHICH WE HOPE TO ASSIST RATHER THAN SPECIFIC SUMS OF PRESENT OR ANTICIPATED AID.

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1. WE WELCOME SECRETARY SIMON'S UPCOMING VISIT TO

EGYPT.PROPERLY MANAGED, IT COULD BE ANOTHER MILE-STONE IN THE POSITIVE EVOLUTION OF OUR RELATIONSHIPS WITH THIS COUNTRY. GOE IS ALSO EARGLY ANTICIPATING VISIT. OUR COMMENTS ON DRAFT STRATEGY PAPER SENT REFTEL ARE SUBMITTED BELOW.

2. GENERAL. WE BELIEVE PAPER, AS A WHOLE, IS GOOD ONE. TWO KEY OBJECTIVES SET FORTH PARA 11 REFTEL ACCURATELY STATE THE ISSUES. ON INSTRUCTIONS, WE HAVE ALREADY RAISED INVESTMENT GUARANTEE AGREEMENT AND SETTLEMENT OF BILATERAL AMERICAN PUBLIC AND PRIVATE CLAIMS WITH HEGAZI, WHO INDICATED GENERAL ACQUIESCENCE (CAIRO 4751). BELIEVE, NEVERTHELESS, IT WOULD BE USEFUL IF SECRETARY SIMON REITERATED THESE POINTS. IN DOING SO, CARE WILL, OF COURSE, HAVE TO BE TAKEN TO AVOID ANY SUGGESTION THAT WE ARE " ATTACHING CONDITIONS" TO OUR WILLINGNESS TO HELP. ANY SUCH SUGGESTIONS, REAL OR IMAGINED, WILL BE BADLY RECEIVED AND SOUR PURPOSE WE ARE SEEKING TO ACHIEVE.

3. EGYPTIAN EXPECTATIONS. A MEANINGFUL ECONOMIC DIMENSION IS ESSENTIAL IF THE DAZZLING POLITICAL SUCCESSES OF THE PAST EIGHT MONTHS ARE TO BE SUSTAINED. MOREOVER, THERE IS URGENCY IN ENCOURAGING CONSTRUCTIVE EGYPTIAN ECONOMIC DEVELOPMENT. EGYPT'S ECONOMIC AND SOCIAL NEEDS ARE STAGGERING. OBSERVERS SOMETIMES SENSE EGYPTIAN MINISTERS ARE FLOUNDERING IN THEIR AVOWED EFFORTS TO MEET IN GLOWING RHETORIC. US-EGYPTIAN DECLARATION HAS AROUSED EGYPTIAN EXPECTATIONS, PARTICULARLY REFERENCE THEREIN TO POSSIBLE \$5 MILLION CAPITAL INVESTMENT (PARA IV). WHILE A READING OF THE PARA (WHICH, INCIDENTALLY, WAS INSERTED AT HEGAZI'S REQUEST) MAKES CLEAR FIGURE IS PEGGED TO PRIVATE INVESTMENT, THIS FACT HAS BEEN LOST IN THE SHUFFLE. SADAT ALSO TOLD CRONKITE THAT HE WOULD ASK USG TO PAY \$2 BILLION FOR SINAI OIL FIELDS TAKEN BY ISRAEL. THUS A \$2 BILLION FIGURE IS IN THE AIR. THERE ARE THOSE EGYPTIAN OFFICIALS (AND CITIZENS) WHO EXPECT SECRETARY SIMON TO BE BRINGING THE FIRST INCREMENT OF THAT POT OF GOLD. ANNOUNCEMENT OF ONE-HALF BILLION DOLLAR

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GRANT AID FOR ISRAEL IN PAST TWO DAYS HAS INTENSIFIED EGYPTIAN EXPECTATIONS THAT THEIR SHARE SHOULD BE

EQUALLY BOUNIFICENT. AS DRAFT STRATEGY PAPER ALREADY POINTS OUT, IT IS ESSENTIAL THAT SOME NOTE OF REALISM BE INJECTED WITHOUT BEING NEGATIVE. WE HAVE ALREADY BEEN ATTEMPTING DISCREETLY DO JUST THAT, BUT THE TASK IS AN UPHILL ONE AND REQUIRES

CONSTANT REITERATION.

4. US THEME: SECRETARY SIMON SHOULD, IN OUR VIEW, FOCUS ON THEME "HOW CAN USG HELP GOE TO HELP ITSELF? SUCCESS OF THIS ENDEAVOR WILL DEPEND IN PART UPON WHAT USG IS WILLING TO DO TO HELP, PRESUMABLY THROUGH JOINT WORKING GROUPS, AND IN PART UPON DEGREE OF PERSONAL RAPPORT WHICH SECRETARY IS ABLE TO DEVELOP WITH HEGAZI AND OTHER LEADING EGYPTIAN ECONOMIC MINISTERS DURING HIS BRIEF VISIT TO EGYPT.

5. DEBT RESCHEDULING: AS A MAJOR WAY OF HELPING, SENIOR GOE OFFICIALS FAVOR USG ASSISTANCE IN ARRANGING DEBT RESCHEDULING. THOUGH EGYPTIAN HAVE IN PAST BEEN LEERY OF DISCLOSING DETAILS RE THEIR FOREIGN INDEBTEDNESS, WE SHARE THE VIEW THAT ANY SUCH DEBT RESCHEDULING EFFORT SHOULD, IF AT ALL POSSIBLE, BE MULTINATIONAL IN SCOPE. IBRD MIGHT BE EFFECTIVE AGEOT TO ARRANGE IT AND WE CAN GET SOME LOCAL IMPACT IF SECRETARY INDICATES NOT ONLY OUR WILLINGNESS TO DO SO FOR DEBTS OWED THE US, BUT ALSO ACTIVELY TO SPEAK WITH OUR CREDITOR NATIONS TO AGREE TO SUCH DEBT RESCHEDULING. AT SAME TIME EGYPTIAN SHOULD BE REMINDED THAT ANY DEBT RESCHEDULING IS ONLY LIKELY TO HAVE LONG TERM VALUE IF THEY MAKE CONCERTED EFFORT IS WHATEVER YEARS OF DEBT RESPITE IS ALLOWED THEM TO STRENGTHEN THEIR OWN ECONOMY. FAILING THIS,, EGYPT SIMPLY STAVES OFF ITS REPAYMENT PROBLEMS FOR A FEW YEARS AND, INDEED, PROBABLY INCREASES THE SIZE OF ITS TOTAL DEBT IN THE MEANTIME. A SUGGESTION WHICH MIGHT BE WORTH CONSIDERING IN CONNECTION WITH DEBT RESCHEDULING, IF IT IS AT ALL FEISIBLE, IS TO

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PERSUADE ALL CREDITORS TO WAIVE FOR A PERIOD OF YEARS THEIR INTEREST CHARGES.IT IS THIS DEBT SERVICING THAT IS SUCH A HEAVY ANNUAL DRAIN ON LIMITED EGYPTIAN HARD CURRENCY RESOURCES AND IS A MAJOR FACTOR IN KEEPING EGYPT FROM PULLING ITSELF OUT OF ECONOMIC SLUMP.

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ACTION SS-30

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORORTY 7552

S E C R E T SECTION 2 OF 2 CAIRO 4852

E X D I S

6. PRIVATE INVESTMENT: MAJOR ELEMENT INSTRENGTHEN-  
ING EGYPTIAN ECONOMY COULD BE MORE PRIVATE INVESTMENT.  
FROM WHAT WE KNOW OF NEW INVESTMENT LAW, IT IS NOT  
LIKELY TO BE VERY ATTRACTIVENGO WESTERN INVESTORS.  
SINCE NEITHER LAW OR HEGAZI'S INTERPRETIVE  
MEMORANDUM IS YET IN WIDE CIRCULATION, WE CANNOT  
YET ASSESS WHETHER LATTER WILL MAKE IT APPRECIABLY  
MORE ATTRACTIVE AS HEGAZI HOPES. HEGAZI HAS GIVEN US  
ARABIC TEXTS, WHICH WILL HOWEVER TAKE SOME TIME TO  
TRANSLATE. HE HAS ALSO PROMISED US OFFICIAL GOE  
TRANSLATION WILL BE COMPLETED WITHIN A WEEK OR SO.  
HOWEVER,, ONE OF ITS LEAST ATTRACTIVE PROVISIONS, AS  
WE UNDERSTAND IT, IS THAT PROFITS FROM INTERNAL PROJECTS  
ARE INELIGIBLE FOR REPATRIATION AND ONLY THOSE WHICH  
GENERATE FOREIGN CURRENCY ARE ELIGIBLE. IN OUR  
JUDGMENT, STRENGTHENING OF EGYPTIAN ECONOMY REQUIRES  
THAT THERE BE PROPER MIX BETWEEN THE TWO. WE WOULD

RECOMMEND THAT SECRETARY SIMON ASK HEGAZI FOR A DETAILED  
BRIEFING ON NEW INVESTMENT LAW AND HIS INTERPRETIVE  
MEMORANDUM AS WELL AS HOW "FREE ZONE" LEGISLATION IS  
TO BE IMPLEMENTED. WE ALSO SUGGEST HEGAZI BE GIVEN  
DETAILED BRIEFING BY THE SECRETARY ON WHAT, IN THE  
LATTER'S VIEW, IS  
NEEDED TO ATTRACT AMERICAN PRIVATE  
CAPITAL INVESTMENT ABROAD. COMING FROM THE SECRETARY,  
THIS MIGHT HAVE A CONSTRUCTIVE EFFORT.

7. RECOMMENDED TACTICS. WE BELIEVE THE SECRETARY,  
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IN HIS TALKS WITH EGYPTIAN OFFICIALS, SHOULD EMPHASIZE  
WHAT USG HAS ALREADY DONE  
TO ASSIST EGYPT AND HOPES

TO DO. IN OUR VIEW, IT WOULD BE BETTER TO DO THIS IN GENERALITIES RATHER THAN SPECIFICS. OUR REASON FOR SUGGESTING THIS IS THAT TOTAL US AID FIGURES, PRESENT AND PROJECTED, HOWEVER IMPRESSIVE WE REGARD THEM, ARE NOT VIEWED IN THE SAME LIGHT BY THE EGYPTIANS. PSYCHOLOGICAL IMPACT OF OUR HELP BY EMPHASIZING (A) THOSE DEVELOPMENT SECTORS WHERE IT IS BEING OR WILL BE GIVEN; AND (B) HOW WE EXPECT IT TO BENEFIT THE EGYPTIAN PEOPLE. SINCE EGYPTIANS WILL DOUBTLESS HAVE "WANT LISTS" OF EVERY CONCEIVABLE SORT AND FAR EXCEEDING AVAILABLE RESOURCES, WE BELIEVE IT IS ESSENTIAL THAT SECRETARY SIMON REINFORCE WHAT WE HAVE BEEN SAYING TO THEM ABOUT NEED FOR (A) RIGOROUS APPLICATION OF SPECIFIC PRIORITIES; AND (B) REALISTIC LONG-TERM PLANNING. NOT EVERYTHING CAN BE DONE IN A YEAR. SAME TIME IN ENCOURAGING SUCH PLANNING WE DO NOT BELIEVE THAT ONLY ECONOMIC CRITERIA, HOWEVER RATIONAL, SHOULD BE USED. THERE MUST ALSO BE DUE

REGARD FOR WHAT SADAT CONSIDERS NECESSARY FOR POLITICAL REASON IN ORDER TO SUSTAIN THE POLICY UPON WHICH HE HAS EMBARKED.

8. JOINT WORKING GROUPS: RE JOINT WORKING GROUPS, WE SUSPECT THAT EGYPTIAN WILL ULTIMATELY WANT TO USE THEM BOTH TO IDENTIFY PROJECTS FOR FUNDING AND TO EXCHANGE INFORMATION ON EGYPT'S NEEDS. AS DEPARTMENT AWARE, FAHMY HAS SUGGESTED THAT THESE GROUPS BE ORGANIZED

AFTER AUGUST JOINT COOPERATION MEETING. NEVERTHELESS, SECRETARY MIGHT WISH TO SOUND OUT EGYPTIANS HOW THEY WOULD LIKE THE JOINT WORKING

PARTIES TO OPERATE. ADDITIONALLY, WE BELIEVE THE SECRETARY SHOULD REINFORCE THE POINT THAT WE HAVE ALREADY MADE TO HEGAZI AND OTHERS RE THE NEED FOR SOME DONOR COORDINATION, PREFERABLY ARRANGED BY GOE,  
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TO AVOID WASTE AND DUPLICATION. WE HOPE SUBMIT OUR VIEWS ON JWGS IN NEXT FEW DAYS.

9. SUGGESTED SPECIFIC CHANGES: APART FROM THE ABOVE GENERAL COMMENTS, WE HAVE TWO SUGGESTED FACTUAL CORRECTIONS. RE PARA 5, SUGGEST FOLLOWING BE SUBSTITUTED FOR THIRD SENTENCE: " FOR THE MOMENT, EGYPT BARELY PRODUCES ENOUGH TO MEET HER OWN NEEDS. AS DEMAND FOR PETROLEUM PRODUCTS RISES, THE RESULTANT

DRAIN ON LIMITED FOREIGN EXCHANGE PROGRAM WILL  
CORRESPONDINGLY RISE. THIS SITUATION WOULD,  
OF COURSE,  
CHANGE SOMEWHAT IF THE ABU RUDAIS FIELD SEIZED BY  
ISREAL IN 1967 WERE RETURNED FOR EGYPTIAN PRODUCTION."  
SECOND, IN PARA 7 WE SUGGEST THE FOLLOWING BE SUBSTITUTED  
FOR THE FINAL SENTENCE: "WITH ABOUT 35 PERCENT OF EGYPT'S  
EXPORTS OF JUST OVER \$1 BILLION EARNING CONVERTIBLE  
CURRENCIES, EGYPT HAS TO LOOK FOR OTHER SOURCES OF  
CAPITAL TO COVER IMPORTS AND DEBTS AND SERVICES".  
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